

Role of the Corporate Centre in improving the management of subsidiaries

Gazprom Neft PJSC is the group corporate centre that ensures effective control over all processes. As of 31 December 2019, Gazprom Neft structure comprised 141 Russian and foreign legal entities.

Gazprom Neft PJSC is the parent company with regards to the Gazprom Neft Group entities, regardless of its share in subsidiary's capital. This is duly documented in their respective charters.

In 2019, the Management Board of Gazprom Neft PJSC has agreed the transition to two-link corporate governance system through the abolishment of the Boards

of Directors in most subsidiaries. This aimed to improve the performance of subsidiaries' governance bodies including:

- reducing bureaucracy;
- reduced decision-making time;
- empowering the role and responsibility of Gazprom Neft Deputy CEOs throughout the entire chain of subsidiaries under their control;
- empowering the role and responsibility of the subsidiaries' CEO.

Under the two-link governance system Gazprom Neft controls subsidiaries performance through the participation

of the parent company representative in the General Meetings of Participants (Shareholders) of subsidiaries, introduction of voting system and preliminary materials approval at the level of the Gazprom Neft core business units, in line with a decision-making matrix, and through the regular audit of corporate governance of subsidiaries.

Transition to the two-link corporate governance system will distribute the issues previously considered by the Board of Directors in subsidiaries, between the General Meeting of Participants (shareholders) and the CEO, strengthening the performance of the subsidiaries'

Subsidiaries decision-making matrix

The Gazprom Neft Board of Directors makes decisions on the following issues related to the subsidiaries activities:

- Increase or reduction of the authorised capital;
- property contributions;
- acquisition, disposal, encumbrance of shares/interest in other entities;
- property contributions to other entities;
- stock issuance and distribution;
- reorganisation or liquidation.

The Gazprom Neft Management Board addresses strategic development of subsidiaries, and provides preliminary approval on acquisition/ disposal of shares/ interest transactions in other entities.

General Meeting of Shareholders (Participants) of subsidiaries

The legally prescribed sole responsibility of the General Meeting of Shareholders (Participants) of a subsidiary includes key business decisions, transactions on loans and borrowings provision/receipt, property sale/other alienation or encumbrance, acquisition/ disposal of shares in capital, stocks, bonds, promissory notes, shares/stocks encumbrance, free-of-charge property alienation valued above ₺1 million, conclusion of corporate agreements or other joint operating agreements, acquisition/disposal of interest in other entities, preliminary decisions on questions within the competency of the General Meetings of legal entities under control.

The responsibility **of a Chief Executive Officer of a subsidiary** includes taking decisions on the following operating activities:

- immovable property lease;
- conclusion of settlement agreements (regardless of the amount);
- other transactions outside the sole responsibility of the General Meeting of Shareholders (Participants).

governance bodies, while retaining the management and control functions at Gazprom Neft PJSC, as well as collegial nature of decision-making. The Board of Directors was retained in those subsidiaries and joint ventures of Gazprom Neft PJSC (hereinafter – JV), where its existence and functioning are required by national legislation or existing agreements between partners on JV governance bodies design and functions.

One of the means used to ensure effective corporate governance and monitoring of subsidiary operations is the review of subsidiaries' key operational matters by the Gazprom Neft PJSC governance bodies.

The Company has developed and approved procedures that allow for coordinating and monitoring the subsidiaries' operations under the guidance of the Corporate Centre as part of the Company's Development Strategy.

Participation of any entity of the Gazprom Neft Group in another entity, whether commercial or non-commercial, is only approved via collective decision-making by a group of duly authorised persons. Matters pertaining to subsidiaries' strategic development are submitted for preliminary approval to Gazprom Neft's Management Board.

The joint ventures in which the Gazprom Neft Group's entities hold a stake have a formalised and approved governance structure. In order to manage these ventures efficiently, the Company established the role of an asset supervisor who is responsible for coordinating the management efforts.

Executive bodies of the Gazprom Neft Group's entities (including the CEO) are appointed to their position subject to approval by the Corporate Centre, regardless of the level of corporate ownership and authorised capital structure of a subsidiary.

Key changes to the Gazprom Neft corporate structure

July 2019

Gazprom Neft PJSC and SIBUR Holding PJSC have consolidated 100 % of the charter capital in Poliom LLC polypropylene plant in Omsk.

Launched in 2012, Poliom is one of Russia's largest polypropylene producers. In 2014, Poliom became the basis for a joint venture between Gazprom Neft (25%), SIBUR (25%) and the Titan Group (50%). The plant has capacity to produce 218,000 tonnes of high-technology product every year, with a range covering 100 brands of polypropylene. The key feedstock for production — propane-propylene fraction — is sourced from the Gazprom Neft Omsk Refinery, with SIBUR managing the distribution of end-products throughout Russia and the CIS.

Poliom LLC deploys best-practice R&D solutions and technologies to ensure waste-free production. Increasing the interest in Poliom marks an important milestone in Gazprom Neft's long-term strategy implementation, a key element of which involves developing petrochemical production. Integrating the assets in the refining and petrochemical sectors enables the company to improve efficiency

in using refinery feedstock to produce high value-added products. Strengthening the Gazprom Neft and SIBUR technological partnership will provide competitive advantages on the Russian and international markets.

October 2019

Gazprom Neft has registered a new operating company, Gazpromneft Marine Lubricants, with an office in Singapore. The new business will manage the effective development of an international sales and logistics network for Gazprom Neft marine lubricants, including, specifically, in the Southeast Asian and European markets. The company's products, endorsed by leading marine equipment producers, are already available in more than 250 ports worldwide.

The marine lubricants and oils range, available under the Gazpromneft and Gazpromneft Ocean brands, includes 43 branded high-tech products for all kinds of marine equipment, with the range including, specifically, 15 kinds of Gazpromneft Ocean engine lubricants for two- and four-stroke engines, the formulations of which have been developed in line with international shipping requirements and the provisions of the MARPOL-2020 convention¹.

November 2019

Within a framework of the Gazprom Neft Group internal restructuring and in order to optimise the corporate governance of its assets, the Group has transferred the ownership of Salym Petroleum Development N.V.

(SPD, registered in the Netherlands) to the newly created Russia-based subsidiary, GPN-Salymnskiye Proekty LLC. SPD is developing the Salym group of fields in the Khanty-Mansi Autonomous Okrug (Khanty-Mansi Autonomous Okrug-Yugra). The Salym project is the largest onshore investment project with foreign capital in the Russian oil industry. The company's cumulative production since the start of the Salym group development has exceeded 83 mt of oil.

December 2019

Gazprom Neft PJSC and Nexign JSC have established a joint venture GX Tech LLC, with the Gazprom Neft Group interest totaled 50%. The main activity of this JV is develop and implementation of domestic software for oil and gas industry.

As part of the sales assets optimization project, Universal-Neft JSC was merged into GazpromNeft-Terminal JSC in December 2019, completing its reorganisation.

Commitment to better corporate governance

The Company closely monitors corporate laws and best practices both in Russia and globally in attempt to improve its corporate governance framework.

In 2019, the steps taken to enhance corporate governance were as follows:

- the transition to the two-link subsidiaries governance system was completed, which aims

to improve the governance efficiency;

- the revised version of the Insider Information Regulation was approved, determining the restrictive periods on transactions with the company shares for insiders;
- the Board of Directors approved the Regulation on Procurement of Goods, Works and Services to regulate the procurement activities of Gazprom Neft PJSC and its subsidiaries. The Regulation establishes the single centre of responsibility for the procurement control, approves the annual procurement plan for the Gazprom Neft Group, applies the procedure for determination and justification of the initial (maximum) contract price, and enables the procurement in line with a closed list of procurement methods used by Gazprom PJSC;
- the External Audit Policy of Gazprom Neft PJSC and its subsidiaries was approved. The Policy sets out the main principles of organisation and conducting the external audit of Gazprom Neft PJSC and its subsidiaries, the procedure and criteria for selecting auditors, and approaches to ensure that the auditors comply with the principles of independence and absence of conflicts of interest.

/ 1 / The International Convention for the Prevention of Pollution from Ships (MARPOL), adopted in 1973. New IMO 2020 emissions standards took effect from 1 January 2020, including stricter requirements for sulphur content in marine fuels

KEY INFORMATION CHANNELS available to a wide range of stakeholders



The company's official website

Focus on the protection of shareholder rights includes efforts to:

- improve disclosure transparency;
- update the shareholder register and upgrade the Online Shareholder Account including provision of additional opportunities on sale of shares for registered shareholders.

Focus on greater efficiency of the Company's governance bodies includes efforts to:

- improve operating procedures;
- automate of the processes control.

Focus on information disclosures includes efforts to:

- automate information transfer and approval from the source of the event to its final disclosure on the securities market.

Focus on corporate governance improvements and adoption of best practices includes efforts to:

- improve the governance system of subsidiaries;
- update by-laws and procedures, regulating corporate-governance issues within the group;
- organise internal control to prevent, detect, and suppress misuse of insider information.

Initiatives on corporate governance practices development

Following the general update of Strategy 2030, corporate governance is also undergoing transformation. In 2018 the company started automating corporate procedures including organisation of the governance bodies routine, information disclosure, transactions approval, and control of subsidiaries and joint ventures. In 2019, definition and selection stages were completed.

The solutions are expected to enable automotive processes control of Gazprom Neft PJSC and its subsidiaries, by establishing the control over the group of companies and embedding the corporate procedures. This will be attained through the automation of the documents preparation and verification, acceleration of the required information receipt, and by reduction of the risk of corporate control loss.

Corporate governance system

The key targets, goals and principles underpinning Gazprom Neft's corporate governance framework include preserving and growing the Company's asset base, increasing its market value, maintaining financial stability and profitability of the Company, and respecting the rights and interests of its shareholders, investors and other stakeholders.

A highly professional management team and an effective system of corporate governance and control are a prerequisite for the successful management of a complex multi-tiered vertically integrated oil company with domestic and foreign upstream and downstream assets. The Company currently has a well-defined organisational structure encouraging seamless interaction between its governance bodies and clear distribution of governance and control roles to guarantee progressive growth of the shareholder value in the long term.

Accountability and financial transparency (with adjustments made for the Company's concerns about the protection of trade secrets and other confidential data) play a pivotal role in Gazprom Neft's corporate governance system.

The Company's website offers access to the latest news, financial and operating results, reports and other useful information, while also making available the documents on Gazprom Neft's governance and control bodies, including the Charter, Regulation on the General Meeting of Shareholders, Regulation on the Board of Directors, Regulation on the Management Board, Regulation on the Chief Executive Officer, and Regulation on the Audit Committee.

To ensure equitable access to information for all stakeholders, the materials at Gazprom Neft's official website are available in both Russian and English.